Tenon
CONDENSED FINANCIAL STATEMENTS
(Extracted from Audited Financial Statements)

Consolidated Income Statement

for year ended 30 June

	Tenon Group	
	June 2016	June 2015
	US$m	US$m
Revenue	430	406
Cost of Sales	-317	-308
Gross Profit	113	98
Distribution Expense	-76	-74
Administration Expense	-14	-14
Operating Profit (excluding items below)	23	10
Impairment (1)	-33	-
Strategic Review Costs (2)	-3	-
Other Expenses (3)	-1	-
(Loss) / Profit before Financing Costs	-14	10
Financing Costs	-3	-4
(Loss) / Profit before Taxation	-17	6
Tax Expense	-4	-
Net (Loss) / Profit after Taxation	-21	6

Earnings Per Share Information		
Basic and Diluted Net Earnings per Share (cents)	-32.0	9.9
Basic and Diluted Weighted Average Number of Shares Outstanding (millions)	64.8	65.3

(1) As at 30 June 2016, the Group has recognised an impairment loss of $31 million in respect of goodwill allocated to its North American activities (refer to note 3) and $2 million in respect of its Australian operations (refer to note 5).
(2) Stategic Review costs incurred in year (refer to note 2).
(3) Other Expenses relate to the cost of the Texas warehouse consolidation.

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Consolidated Statement of Comprehensive Income

for year ended 30 June

	Tenon Group	
	June 2016	June 2015
	US$m	US$m
Net (Loss) / Profit after Taxation for the year	-21	6
Items that may be recycled to the Consolidated Income Statement :		
Net movement of Cash Flow Hedges net of Tax	1	-1
Movement in Currency Translation Reserve	-	-3
Other Comprehensive (Loss) / Income for the year, net of Tax	1	-4
Total Comprehensive (Loss) / Income for the year	-20	2

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Consolidated Balance Sheet

as at 30 June

	Note	Tenon Group June 2016 US$m	Tenon Group June 2015 US$m
ASSETS			
Current Assets:			
Cash and Cash Equivalents		2	-
Inventory		71	81
Trade and Other Receivables		35	34
Total Current Assets		108	115
Non Current Assets:			
Fixed Assets		26	24
Forest Assets		1	1
Goodwill	3	36	67
Deferred Taxation Asset		8	11
Total Non Current Assets		71	103
Total Group Assets		179	218
LIABILITIES AND EQUITY			
Liabilities			
Current Liabilities:			
Bank Overdraft		-	3
Trade and Other Payables and Provisions		40	37
Current Debt		3	1
Total Current Liabilities		43	41
Non Current Liabilities:			
Non Current Debt		35	54
Deferred Rent Liability		3	-
Total Non Current Liabilities		38	54
Total Group Liabilities		81	95
Equity			
Capital		532	532
Reserves		-434	-409
Total Equity		98	123
Total Group Liabilities and Equity		179	218
Net Assets per Share (US$)		1.51	1.90
Net Tangible Assets per Share (US$)		0.83	0.69
Shares used for Net Assets per Share (millions)		64.8	64.8

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Consolidated Statement of Changes in Equity

for year ended 30 June

Tenon Group	Share Capital US$m	Retained Earnings/ (Losses) US$m	Cash Flow Hedge Reserve (2) US$m	Revaluation Reserve US$m	Net Currency Translation US$m	Total Equity and Reserves US$m
As at 1 July 2014	533	-418	-	1	6	122
Net Profit after Taxation for the year	-	6	-	-	-	6
Other Comprehensive (Loss) / Income for the year	-	-	-1	-	-3	-4
Total Comprehensive (Loss) / Income Attributable to the Equity holders of the Parent	-	6	-1	-	-3	2
Share Buyback (1)	-1	-	-	-	-	-1
As at 30 June 2015	532	-412	-1	1	3	123
As at 1 July 2015	532	-412	-1	1	3	123
Net Loss after Taxation for the year	-	-21	-	-	-	-21
Other Comprehensive Income for the year	-	-	1	-	-	1
Total Comprehensive (Loss) / Income Attributable to the Equity holders of the Parent	-	-21	1	-	-	-20
Dividend Paid (3)	-	-5	-	-	-	-5
As at 30 June 2016	532	-438	-	1	3	98

(1) In 2014 and 2015 the Company conducted an on-market share buy-back of up to 1.2 million shares, comprising 3 separate tranches, the first two of which have been completed. As at 30 June 2015, 875,750 shares had been acquired under the share buybacks at an average on-market purchase price of NZ$1.70. The shares were cancelled upon acquisition by Tenon Limited. No shares were purchased and cancelled in the current period.

(2) The Cash Flow Hedging Reserve records the net movement of cash flow hedging instruments, comprising of foreign exchange contracts and interest rate swaps.

(3) Interim Dividend paid (NZ 5.75 cents per share in April 2016 and NZ 5.00 cents per share in November 2015).

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Consolidated Statement of Cash Flows

for year ended 30 June

	Tenon Group	
	June 2016	June 2015
	US$m	US$m
Cash was Provided:		
From Operating Activities		
Receipts from Customers	428	404
Total Provided	428	404
Payments to Suppliers, Employees and Other	392	401
Tax Paid	1	1
Total Applied	393	402
Net Cash from Operating Activities	35	2
To Investing Activities:		
Purchase of Fixed Assets	5	6
Total Applied	5	6
Net Cash to Investing Activities	-5	-6
From Financing Activities:		
Debt Drawdowns	6	13
Total Provided	6	13
Debt Settlements	23	7
Interest and Refinancing Fees paid	3	3
Share Buyback	-	1
Dividend Paid [1]	5	-
Total Applied	31	11
Net Cash from / (to) Financing Activities	-25	2
Net Movement in Cash Held	5	-2
Add Opening Cash, Cash Equivalents and Overdrafts	-3	-1
Closing Cash, Cash Equivalents and Overdrafts	2	-3

(1) Interim Dividend paid (NZ 5.75 cents per share in April 2016 and NZ 5.00 cents per share in November 2015)

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Reconciliation of Consolidated Net Earnings to Consolidated Net Cash from Operating Activities

for year ended 30 June

	Tenon Group	
	June 2016	June 2015
	US$m	US$m
Cash was Provided from:		
Net (Loss) / Profit after Taxation	-21	6
Add Financing Costs	3	4
Adjustments:		
Depreciation	3	3
Taxation	3	-1
Forest Assets	-	1
Impairment and other non cash items	34	-
Cash Flow from Operations before Net Working Capital Movements	22	13
Net Working Capital Movements	13	-11
Net Cash from Operating Activities	35	2
Net Working Capital Movements:		
Trade and Other Receivables	-2	-1
Inventory	9	-16
Trade and Other Payables	6	6
	13	-11

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1 Non-GAAP Measures

Tenon uses EBITDA when discussing financial performance. EBITDA is Earnings before Interest, Tax, and Depreciation and Amortisation. This is a non-GAAP financial measure and is not recognised within NZ IFRS and IFRS. As it is not uniformly defined or utilised this measure may not be comparable with similarly titled measures used by other companies. Non-GAAP financial measures should not be viewed in isolation nor considered as a substitute for measures reported in accordance with NZ IFRS and IFRS. Management believes that EBITDA provides useful information, as it is used internally to evaluate performance, and it is also a measure that equity analysts focus on for comparative company performance purposes, as the measure removes distortions caused by differences in asset age and depreciation policies.

The following table reconciles Net (Loss) / Profit after Taxation to EBITDA:

	Tenon Group	
	June 2016 US$m	June 2015 US$m
Net (Loss) / Profit after Taxation	-21	6
Plus Tax expense	4	-
Plus Financing Costs	3	4
(Loss) / Profit before Financing Costs	-14	10
Plus Depreciation and Amortisation	3	3
EBITDA (1)	**-11**	**13**
Strategic Review Costs, Impairment and Other Expenses (2)	**37**	-
EBITDA (1) before Strategic Review Costs, Impairment and Other Expenses	**26**	**13**

(1) June 2016 includes FX losses of $0.4 million (June 2015: FX losses $0.6 million).
(2) June 2016 comprises Strategic Review costs of $3 million (refer note 2), Goodwill Impairment ($31 million, refer to note 3) , Australia impairment ($2 million, refer to note 5) and Texas warehouse consolidation ($1 million). There were no comparable costs for 2015.

2 Strategic Review

On 28 August 2015, the Board of Directors announced a strategic review of Tenon would be undertaken. Deutsche Craigs and Deutsche Bank were appointed as Tenon's exclusive advisors for the purpose of the review. The strategic review costs of $3 million are all administrative costs. The Strategic Review has resulted in a sale and purchase agreement being signed, post balance date, for the sale of Tenon's North American operations (refer to note 5, Post Balance Date events). The Company is still undertaking a strategic review in relation to its clearwood manufacturing operation domiciled in New Zealand.

3 Goodwill

Tenon has allocated goodwill to one Cash Generating Unit ("CGU") being, Tenon's 100% ownership interests in its North American manufacturing and distribution activities comprising The Empire Company, Southwest Moulding Co., and the Ornamental group of companies.

All businesses operate within Tenon's primary business segment being the North American geographic market. In accordance with IFRS, the recoverable amount of the CGU is the higher of its fair value less costs to sell and its value-in-use. The value-in-use calculations for Tenon's North American CGU use discounted cash flow projections over the five months to settlement date (30 November 2016) of the Blue Wolf offer signed on 29 August 2016 (refer to note 5: Post Balance Date Events) and the terminal value is calculated as the estimated settlement proceeds less cost to sell. The value-in use calculated on this basis is materially the same as the estimated agreement price less costs to sell for the North American operations as determined by the Strategic Review that the Group initiated last year (refer to note 5: Post Balance Date Events). The estimated agreement price less costs to sell has been used to determine the goodwill impairment as at 30 June 2016. Accordingly, as at 30 June 2016, the Group has recognised an impairment loss of $31 million in respect of goodwill allocated to its North American activities.

4 Geographical Segmental Reporting

Geographical segmental reporting for the periods ended June 2016 and June 2015 split between North America and Australasia is shown below:

	Tenon Group	
	June 2016 US$m	June 2015 US$m
Total Gross Revenue by selling location		
Australasia [1]	89	91
Less inter-company sales from Australasia to North America [2]	-47	-42
External Australasia Sales	42	49
North America [3]	388	357
Operating Revenue	430	406
Non-Current Assets, excluding deferred taxation, by geographic location		
Australasia	18	16
North America [3]	45	76
Non-Current Assets, excluding deferred taxation	63	92

(1) June 2015: Australasia sales includes $6 million of Log sales made under a back-to-back forest stumpage agreement that terminated during the 2015 year and $4 million from the sale of forests that did not re-occur in the June 2016 year.

(2) Operating revenue excludes transfers between geographical segments as transfers are eliminated on consolidation. Such transfers are accounted for at competitive market rates charged to unaffiliated customers for similar goods.

(3) On 29 August 2016, Tenon announced that it had signed a sale and purchase agreement for the sale of its North American operations, subject to shareholder approval (refer to note 5: Post Balance Date Events).

5 Post Balance Date Events

Dividend Announcement

On 29 August 2016, a final dividend of NZ 6.5 cents per share was approved by the Board of Directors. This dividend will have no imputation credits attached given the current non-tax paying position of Tenon in New Zealand. In accordance with NZ IFRS, this amount has not been recognised as a liability as at 30 June 2016, but will be brought to account during the 2017 financial year.

Australian Operations

On 24 August 2016, the Woolworths Group sent a release to the Australia Stock Exchange announcing that all the Masters Home Improvement stores will be closed. As at 30 June 2016, Tenon had impaired its Australian operations, and taken a $2 million charge to earnings to align the carrying value of the Australian assets to estimated net realisable value.

Agreement to sell North American assets

As at 30 June 2016 the management and directors were evaluating the results of the Strategic Review and had not decided on the sale option and therefore did not meet the requirements of IFRS 5, "Non Current Assets Held for Sale and Discontinued Operations". On 29 August 2016, the directors of Tenon Limited announced that they had signed an agreement to sell Tenon's North American companies to Blue Wolf Capital (a US private equity fund operating in the forestry and wood products markets) for US$110 million. The agreement to sell was the outcome of the Strategic Review process that was announced in August 2015. The sale is subject to shareholder approval which will be sought at a special shareholders meeting in November 2016. If shareholder approval is obtained the settlement date will be 30 November 2016. As at 30 June 2016, the North American assets being disposed have been valued at the estimated agreement price less costs to sell, and we do not believe any material gain or loss will arise on completion. The North American assets form part of the single operating reporting segment, being the Moulding and Millwork segment. Approval of the Blue Wolf offer will result in the repayment of all Group Debt held under the current credit facility, and the payment of a large pro-rata capital return to Tenon's shareholders. Operating assets remaining after the sale will be the Group's large clearwood manufacturing and sale operations in New Zealand, which had Gross Revenue of $89 million (including Australia) in the 12 months ending 30 June 2016 (refer to note 4). These assets will also be the subject to the outcome of the on-going Strategic Review.